PW Principles of value analysis

The pre-requisites for cost effectiveness

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Value specialist

There are four areas of difference between effective and ineffective buyers: (1) knowledge, (2) techniques, (3) skill, and (4) initiative.

Superior techniques, which generate more knowledge and skill so the PA can achieve better results in less time, can be taught. And buyers armed with effective techniques seem to generate greater enthusiasm—and thus more initiative.

In a nutshell, this series will attempt to provide the extra knowledge, improved technique, and superior skill needed to do a better buying job.

For a purchasing value analyst, getting better purchase costs while maintaining quality involves a process of developing specifics fully. The overall approach is similar to that taken by a grower of prize winning flowers. He has on hand, and uses, a good general purpose fertilizer. He knows that with it he can grow good normal plants. But remember, he isn't interested in normal plants—he wants to grow prize winners. So he departs from what's generally good into specifics, asking "exactly what does this specific plant need? Exactly what soil do I have it in? What do I have to do to improve it?" Then he departs from established good general practice and does something that is smart in this specific case. In short, he does what is exactly necessary for the particular situation.

The PM who decides to bring more than the run of the mill benefits to his employer similarly moves from the world of generalities into the world of specifics. He asks, "exactly what am I buying? Exactly what is the product being called upon to do? Precisely what opportunities are available that will help the product do what it is intended to do, but at better cost? How does this buying situation differ specifically from the general one?"

Purchasing value analysis work can be divided into two sets of approaches and techniques. The first group consists of techniques that the buyer can use entirely within his own orbit of work. Many of the standard cost savings techniques fit here. The second group, harder to implement, requires changes that must be approved by other departments. For instance, changing from metal to plastic for a particular part might require approval from the engineers, the production people, the quality control people, and, ultimately, the end user as well.

Whether he's operating from the base of his own work, or from a base that requires approval from others, the purchasing value analyst soon realizes that the *sine qua non* is knowledge. Where and how does the buyer develop the information he needs? Consider some of these "hidden" sources:

(1) Sellers always know more about the product than buyers. Ask them.

(2) Handbooks and catalogs are vital sources of general information, but they come up to only 85% of telling the whole story of what is available. Look for the other 15% (again, check your vendors).

(3) Price lists are written on the basis of generalities. Specific purchase situations are usually very different. Concentrate on the favorable differences.

(4) The seller often has a better material or product or service for a particular use. But he does not know, in useful terms, what the buyer's use is. Explain it to him fully.

(5) Specialized skills, materials, and products are often suppliable by vendors. Too often the buyer who needs them doesn't know about them. Check out what your vendors have to offer.

(6) Sellers are sometimes unimaginative, continuing to sell products "as-is" when modifications or adaptations better fit them to the buyer's needs. Tell them what your needs are.

(7) Vendors must sell for the highest price they can secure in a competitive market where buyers are the goalies. Negotiate harder.

(8) Buyers are limited to using suppliers they know. Get to know more of them.

In the purchasing game, the buyer's competitor is his counterpart in a competing company. Whenever that PM outbuys him, although he will probably not know it, his company suffers and he loses the game.

The use of knowledge helps win the game. Getting that knowledge is the first step. But how does the buyer know what added knowledge will be helpful? How does a busy buyer know when it is worthwhile to expend the extra effort required to get vital knowledge? Indeed, what knowledge is vital?

On a practical level there is one type of knowledge that opens the door to spectacular results. It's function knowledge—knowing what the product does. Function knowledge answers the question from which all VA techniques spring: "What use or service or help does the expenditure of money for this item bring?"

Securing function knowledge isn't easy. There are often very real obstacles to getting this sort of information. Associates, who as yet do not understand what you are trying to accomplish, sometimes set up roadblocks. "Why does he have to know the function?" they ask. "We tell him what to get. All he has to do is to buy it at a good price."

We'll start to answer that objection with an example:

The requisiton requested 800 sets of small bronze gears. The buyer asked, "What do the gears do?"

He was shown that the small gear attached to a rheostat. The large gear attached to a lever handle, and was mounted so it engaged the small gear.

In operation, the handle was moved manually for control purposes through an arc of 90 degrees, which turned the rheostat through its range of 300 degrees.

The buyer saw that if he could buy a rheostat which covered its complete range in 90 degrees instead of 300 degrees, the handles could control the rheostats directly and no gears would be needed.

Supplier catalogs showed different ranges of action, but none was 90 degrees. So he called the seller and asked if a range of 90 degrees was available. The answer was "yes" but since it was a special item the cost would be higher. The increase was 10¢/unit. Paying 10¢ more for the rheostats meant that $20 could be saved by eliminating gear costs.

The result of this buyer's determination to learn the function of what he buys, so that other contributions by purchasing might become possible, was a saving of $16,000 on the gears.

Next month Larry Miles will continue his discussion about "function" and will describe how to perform a function analysis.